

CITY OF NEW SHARON, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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CITY OF NEW SHARON, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2006)		
Ed Davis	Mayor	January, 2007
Larry Applegate	Mayor Pro Tem	January, 2007
Lisa Munn	Council Member	January, 2007
Dianna Klinker	Council Member	January, 2009
Ken Ward	Council Member	January, 2009
Zach Pickard	Council Member	January, 2009
(After January, 2006)		
Ed Davis	Mayor	January, 2007
Larry Applegate	Mayor Pro Tem	January, 2007
Lisa Munn	Council Member	January, 2007
Dianna Klinker	Council Member	January, 2009
Ken Ward	Council Member	January, 2009
Zach Pickard	Council Member	January, 2009
Cara Ferguson	Clerk/Treasurer	September 30, 2005
Wauneta G. Hinman	Deputy Clerk	Indefinite
Diane Brand	Clerk/Treasurer	Indefinite
Hugh Faulkner	Attorney	December 31, 2006

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:
City of New Sharon
New Sharon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund and aggregate remaining fund information of the City of New Sharon, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of New Sharon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of New Sharon as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated December 29, 2006, on our consideration of the City of New Sharon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Sharon's basic financial statements. The financial statements were not audited in the last three (3) years. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

December 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of New Sharon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow. The financial statements were not audited last year, therefore we are not including information for comparative purposes.

2006 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets decreased 7.7%, or approximately \$96,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$126,000 and the assets of the business type activities increased by approximately \$30,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about indebtedness and a comparative schedule of receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water and sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, and 4) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased. The analysis that follows focuses on the changes in cash balances for the governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 72
Operating grants, contributions and restricted interest	132
General receipts:	
Property tax	143
Local option sales and services tax	92
Unrestricted interest earnings	29
Miscellaneous	1
Total receipts and transfers	<u>469</u>
Disbursements:	
Public safety	123
Public works	225
Culture and recreation	60
Community and economic development	108
General government	79
Total disbursements	<u>595</u>
Increase (decrease) in cash basis net assets	(126)
Cash basis net assets beginning of year, as restated	<u>916</u>
Cash basis net assets end of year	<u><u>\$ 790</u></u>

The cost of all governmental activities this year was \$595,000. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$391,000 because some of the cost was paid by those directly benefiting from the programs (\$72,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$132,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 83
Sewer	96
General receipts:	
Unrestricted interest earnings	2
Other general receipts	1
Total receipts	<u>182</u>
Disbursements and transfers:	
Water	74
Sewer	78
Total disbursements and transfers:	<u>152</u>
Increase (decrease) in cash balance	30
Cash basis net assets beginning of year	<u>323</u>
Cash basis net assets end of year	<u><u>\$ 353</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of New Sharon completed the year, its governmental funds reported a combined fund balance of \$790,254, a decrease of more than \$125,000 from last year's total of \$915,846. The following is the major reason for the change in fund balance from the prior year:

- The General Fund decreased by \$116,511 to \$84,372 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$11,171 to \$163,767, due primarily to a larger increase in revenues than expenditures.
- The Sewer Fund cash balance increased by \$18,892 to \$189,202, due primarily to a larger increase in revenues than expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments increased public safety disbursements by \$16,000, public works disbursements by \$67,000, culture and recreation disbursements by \$25,000 and community and economic development disbursements by \$40,000. The amendments decreased general government disbursements by \$15,000 and business type activity disbursements by \$39,789.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$314,000 in bonds and other long-term debt, compared to approximately \$329,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
Revenue notes, sewer	\$ 314	329
Total	\$ 314	329

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City has no general obligation debt as of June 30, 2006.

Debt decreased due to regularly scheduled payments of the obligations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Brand, City Clerk, Box 507, New Sharon, Iowa, 50207.

City of New Sharon, Iowa

Basic Financial Statements

CITY OF NEW SHARON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Primary government:			
Governmental activities:			
Public safety	\$ 122,970	41,523	-
Public works	225,469	1,217	108,927
Culture and recreation	59,705	2,228	23,152
Community and economic development	107,681	-	-
General government	79,564	27,064	-
Debt service	-	-	-
Total governmental activities	595,389	72,032	132,079
Business type activities:			
Water	74,656	82,916	-
Sewer	77,729	95,896	-
Total business type activities	152,385	178,812	-
Total primary government	\$ 747,774	250,844	132,079
Component Units:			
N.S.R.E.D.F	\$ 152,336	3,003	149,680
New Sharon Fire & Rescue Assoc., Inc.	94,901	45,173	157,251
Total Component Units	247,237	48,176	306,931
General Receipts:			
Property tax levied for:			
General purposes			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Debt service/improvements			
Permanent endowment fund:			
Nonexpendable			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Units
(81,447)	-	(81,447)	-
(115,325)	-	(115,325)	-
(34,325)	-	(34,325)	-
(107,681)	-	(107,681)	-
(52,500)	-	(52,500)	-
-	-	-	-
(391,278)	-	(391,278)	-
-	8,260	8,260	-
-	18,167	18,167	-
-	26,427	26,427	-
(391,278)	26,427	(364,851)	-
-	-	-	347
-	-	-	107,523
-	-	-	107,870
\$ 143,156	-	143,156	-
92,046	-	92,046	-
29,295	2,099	31,394	2,871
1,189	1,537	2,726	-
265,686	3,636	269,322	2,871
(125,592)	30,063	(95,529)	110,741
915,846	322,906	1,238,752	5,793
790,254	352,969	1,143,223	116,534
44,655	28,502	73,157	-
76,120	-	76,120	-
669,479	324,467	993,946	116,534
\$ 790,254	352,969	1,143,223	116,534

Exhibit B

CITY OF NEW SHARON, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2006

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Non-major	
Receipts:					
Property tax	\$ 143,156	-	-	-	143,156
Other city taxes	-	-	92,046	-	92,046
Licenses and permits	1,570	-	-	-	1,570
Use of money and property	29,464	5,076	950	700	36,190
Intergovernmental	-	108,927	-	-	108,927
Charges for service	41,404	-	-	-	41,404
Private contributions	24,341	-	-	-	24,341
Miscellaneous	20,463	532	-	1,168	22,163
Total receipts	260,398	114,535	92,996	1,868	469,797
Disbursements:					
Operating:					
Public safety	122,970	-	-	-	122,970
Public works	114,979	110,490	-	-	225,469
Culture and recreation	59,396	-	-	309	59,705
Community and economic development	-	-	107,681	-	107,681
General government	79,564	-	-	-	79,564
Total disbursements	376,909	110,490	107,681	309	595,389
Excess of receipts over disbursements	(116,511)	4,045	(14,685)	1,559	(125,592)
Cash balances beginning of year	200,883	419,657	170,052	125,254	915,846
Cash balances end of year	\$ 84,372	423,702	155,367	126,813	790,254
Cash Basis Fund Balances					
Reserved:					
Debt service/improvement	\$ -	-	-	44,655	44,655
Unreserved:					
General Fund	84,372	-	-	6,038	90,410
Special revenue funds	-	423,702	155,367	-	579,069
Permanent funds	-	-	-	76,120	76,120
Total cash basis fund balances	\$ 84,372	423,702	155,367	126,813	790,254

See notes to financial statements.

Exhibit C

CITY OF NEW SHARON, IOWA
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2006

Total governmental funds cash balances (Exhibit A)	<u>\$ 790,254</u>
Cash basis net assets of governmental activities (Exhibit B)	<u><u>\$ 790,254</u></u>
Net change in cash balances (Exhibit B)	<u>\$ (125,592)</u>
Change in cash balance of governmental activities (Exhibit A)	<u><u>\$ (125,592)</u></u>

See notes to financial statements.

Exhibit D

CITY OF NEW SHARON, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the year ended June 30, 2006

	Enterprise Funds		Total
	Water	Sewer	
Operating receipts:			
Charges for service	\$ 82,916	95,896	178,812
Miscellaneous	1,412	125	1,537
Total operating receipts	84,328	96,021	180,349
Operating disbursements:			
Business type activities	74,656	48,417	123,073
Total operating disbursements	74,656	48,417	123,073
Excess of operating receipts over operating disbursements	9,672	47,604	57,276
Non-operating receipts (disbursements):			
Interest on investments	1,499	600	2,099
Debt service	-	(29,312)	(29,312)
Total non-operating receipts (disbursements)	1,499	(28,712)	(27,213)
Excess of receipts over disbursements	11,171	18,892	30,063
Net change in cash balances	11,171	18,892	30,063
Cash balances beginning of year	152,596	170,310	322,906
Cash balances end of year	\$ 163,767	189,202	352,969
Cash Basis Fund Balances			
Reserved for debt service	\$ -	28,502	28,502
Unreserved	163,767	160,700	324,467
Total cash basis fund balances	\$ 163,767	189,202	352,969

See notes to financial statements.

Exhibit E

CITY OF NEW SHARON, IOWA
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS
As of and for the year ended June 30, 2006

Total enterprise funds cash balances (Exhibit D)	<u>\$ 352,969</u>
Cash basis net assets of business type activities (Exhibit A)	<u><u>\$ 352,969</u></u>
Net change in cash balances (Exhibit D)	<u>\$ 30,063</u>
Change in cash balance of business type activities (Exhibit A)	<u><u>\$ 30,063</u></u>

See notes to financial statements.

CITY OF NEW SHARON, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES - COMPONENT UNITS
 As of and for the year ended June 30, 2006

	N.S.R.E.D.F	New Sharon Fire & Rescue	Total
Operating receipts:			
Charges for service	\$ -	45,173	45,173
Grants	149,680	-	149,680
Development Loan repayment	3,003	-	3,003
Donations	-	157,251	157,251
Total operating receipts	152,683	202,424	355,107
Operating disbursements:			
Program expense	3,265	94,901	98,166
Development Loans/grants	149,071	-	149,071
Total operating disbursements	152,336	94,901	247,237
Excess of operating receipts over operating disbursements	347	107,523	107,870
Non-operating receipts:			
Interest on investments	223	2,648	2,871
Total non-operating receipts	223	2,648	2,871
Excess of receipts over disbursements	570	110,171	110,741
Net change in cash balances	570	110,171	110,741
Cash balances beginning of year	5,793	-	5,793
Cash balances end of year	\$ 6,363	110,171	116,534
Cash Basis Fund Balances			
Reserved for economic development	\$ 6,363	-	6,363
Unreserved	-	110,171	110,171
Total cash basis fund balances	\$ 6,363	110,171	116,534

See notes to financial statements.

CITY OF NEW SHARON, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) **Summary of Significant Accounting Policies**

The City of New Sharon is a political subdivision of the State of Iowa located in Mahaska County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of New Sharon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of New Sharon (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units

New Sharon Recreation and Economic Development Foundation (NSREDF) is a legally separate not-for-profit entity. NSREDF was created in connection with the voters' approval of a 1 cent local sales tax to be used to fund recreation and economic development in New Sharon. One hundred percent (100%) of the sales and services tax was allocated to the NSREDF with the City of New Sharon named as trustee for all revenues and expenditures from the foundation.

The New Sharon Fire and Rescue Association, Inc. is a legally separate not-for-profit entity. The last fiscal year, all the Medicare reimbursements for services were received under the City of New Sharon's ID number. This caused a financial dependence between the New Sharon Fire and Rescue Association, Inc. and the City of New Sharon which would not otherwise be present. The New Sharon Fire and Rescue Association, Inc. plans to remedy the situation by having Medicare payments come directly to them in the future.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members or appointed representatives to the following boards and commissions: Mahaska County Assessor's Conference Board, Mahaska County Joint E911 Service Board, Mahaska County Emergency Management Commission, Mahaska County Area Solid Waste Management Commission, and Area XV Regional Planning Commission.

CITY OF NEW SHARON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets does not include fiduciary funds or component units that are fiduciary in nature. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for recreation and economic development financed by local option sales tax.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs.

CITY OF NEW SHARON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of New Sharon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. Those are described in note 3(b). None of the other restricted net assets are available for current expenses.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the business type activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF NEW SHARON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

At June 30, 2006 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of deposit	\$ 20,000	20,000	September-07
Certificate of deposit	50,000	50,000	September-07
Certificate of deposit	50,000	50,000	September-07
Certificate of deposit	30,000	30,000	September-07
Certificate of deposit	30,000	30,000	September-07
Certificate of deposit	20,941	20,941	September-07
Certificate of deposit	50,000	50,000	September-07
Certificate of deposit	126,632	126,632	September-08
Certificate of deposit	100,000	100,000	September-08
Certificate of deposit	123,711	123,711	July-07
Certificate of deposit	100,000	100,000	July-07
Certificate of deposit	20,000	20,000	March-08
Certificate of deposit	6,095	6,095	October-08
Certificate of deposit	47,000	47,000	January-09
Certificate of deposit	50,000	50,000	January-09
Certificate of deposit	15,000	15,000	March-07
Certificate of deposit	27,062	27,062	February-07
Certificate of deposit	22,851	22,851	June-07
Total	<u>\$ 889,292</u>	<u>889,292</u>	

(3) Bonds Payable

Annual debt service requirements to maturity for revenue bonds are listed on Schedule 3.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the sewer utility so as to provide a balance of net revenues equal to at least 110% of the principal and interest on all the bonds due in each fiscal year.
- c) Sufficient monthly transfers shall be made to separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account. This account is available for the purpose of paying bond and interest payments which the other accounts might be unable to make. However, as long as the revenue bond sinking account has been funded, the balance of the surplus may be made available as the City Council may direct. As such, this balance has been included with the sewer operating account.

CITY OF NEW SHARON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(4) Pension and Retirement Benefits

The City of New Sharon contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members (other than police IPERS) are required to contribute 3.70% of their annual covered salary, and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to non-police IPERS for the years ended June 30, 2006, 2005 and 2004, were \$6,334, \$6,367, and \$5,785, respectively, equal to the required contributions for each year.

Plan members covered under police IPERS are required to contribute 6.16%, 6.16% and 5.93% of their annual salary, and the City is required to contribute 9.23%, 9.23% and 8.9% of the covered salaries for the years ended June 30, 2006, 2005 and 2004, respectively. The City's contributions to police IPERS for the years ended June 30, 2006, 2005 and 2004 were \$2,795, \$2,692, and \$2,407, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2006 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$9,879

This liability has been computed based on current rates of pay.

(6) Interfund transfers

There were no interfund transfers for the year ended June 30, 2006.

CITY OF NEW SHARON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(7) Transactions Between the City and the Component Units

The following are significant transactions between the City of New Sharon and the component unit NSREDF:

Transaction Description	From City to NSREDF
Grant for revolving loans	\$ 61,000
Funds for grants at NSREDF's discretion	4,207
Funds for final cost of Old School Square development property	24,960
City Council Approved grants for economic development:	
Treasure Chest	4,750
Deming Naturescapes	2,875
Beyond Elegance	2,500
Closet Collections	3,678
New Sharon Car Wash	2,225
Sadler Sign and Design	1,485
	<u>\$ 107,680</u>

The NSREDF was established to encourage economic growth in the City of New Sharon. Funds from the local option sales tax collections are used for this purpose. The expenditure for \$24,960 is the final of three payments made to purchase property for economic development. This property has six lots available for building and economic growth. Two of the six lots have been sold and one of those lots has been used to develop a multi-family housing unit.

Annually, the City allows a \$9,000 discretionary budget of funds available to the NSREDF for grants under \$1,000 each. The \$4,207 were remaining discretionary funds from the City's 04/05 budget paid to the NSREDF for use in their discretionary grants.

Grant requests over \$1,000 require City Council approval and are paid as approved to the NSREDF who then issues the grants directly.

In addition, the NSREDF has received funds for a revolving loan program. \$61,000 was received from the City of New Sharon and \$42,000 was received from the State of Iowa.

The \$103,000 in revolving loans were issued as follows:

	Revolving Loans	Scheduled Monthly Payment
Loan 1 - 4/2006	\$ 50,000	500.00
Loan 2 - 4/2006	53,000	501.00
	<u>\$ 103,000</u>	

Terms are the same for both loans. Year one is interest-free. Years two through 10 have a 5% interest rate with a balloon payment at the end.

CITY OF NEW SHARON, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The City also directly granted one revolving loan:

	<u>Revolving Loan</u>	<u>Scheduled Monthly Payment</u>
Loan 1 - 1/2005	\$ 60,000	474.48

Terms are interest-free for one year. Years two through eight have a 5% interest rate for a total of 83 payments of \$474.56 and then a balloon payment at the end of eight years for \$37,952.69. The building will be held as collateral for the term of the loan.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,305 during the year ended June 30, 2006.

(9) Risk Management

The City of New Sharon is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of New Sharon, Iowa

Required Supplementary Information

CITY OF NEW SHARON, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS - REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 143,156	-	143,156
Other city tax	92,046	-	92,046
Licenses and permits	1,570	-	1,570
Use of money and property	36,190	2,099	38,289
Intergovernmental	108,927	-	108,927
Charges for services	41,404	178,812	220,216
Private contributions	24,341	-	24,341
Miscellaneous	22,163	1,537	23,700
Other financing sources	-	-	-
Total receipts	469,797	182,448	652,245
Disbursements:			
Public safety	122,970	-	122,970
Public works	225,469	-	225,469
Culture and Recreation	59,705	-	59,705
Community & Economic Development	107,681	-	107,681
General government	79,564	-	79,564
Business type activities	-	152,385	152,385
Total disbursements	595,389	152,385	747,774
Excess (deficiency) of receipts over (under) disbursements	(125,592)	30,063	(95,529)
Balances beginning of year	915,846	322,906	1,238,752
Balances end of year	\$ 790,254	352,969	1,143,223

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
135,235	135,235	7,921
86,984	86,984	5,062
3,500	3,500	(1,930)
22,578	22,578	15,711
161,265	161,265	(52,338)
285,783	285,783	(65,567)
-	-	24,341
2,289	2,289	21,411
25,734	25,734	(25,734)
723,368	723,368	(71,123)

108,857	124,857	1,887
160,853	227,853	2,384
35,863	60,863	1,158
72,643	112,643	4,962
100,796	85,796	6,232
162,862	123,073	(29,312)
641,874	735,085	(12,689)

81,494	(11,717)	<u>(83,812)</u>
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1,169,644	1,169,644
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1,251,138	1,157,927
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CITY OF NEW SHARON, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2006

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budget disbursements by \$93,211. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the business type activities function.

Other Supplementary Information

CITY OF NEW SHARON, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2006

		Permanent		
	Debt Service	Fleener	Perpetual	Total
Receipts:				
Use of money and property	\$ -	700	-	700
Miscellaneous	-	-	1,168	1,168
Total receipts	-	700	1,168	1,868
Disbursements:				
Operating:				
Culture and recreation	-	309	-	309
Total disbursements	-	309	-	309
Excess of receipts over disbursements	-	391	1,168	1,559
Cash balances beginning of year	44,655	25,647	54,952	125,254
Cash balances end of year	\$ 44,655	26,038	56,120	126,813
Cash Basis Fund Balances				
Reserved:				
Debt service/improvement	\$ 44,655	-	-	44,655
Unreserved:				
General Fund	-	6,038	-	6,038
Permanent fund	-	20,000	56,120	76,120
Total cash basis fund balances	\$ 44,655	26,038	56,120	126,813

See accompanying independent auditor's report.

CITY OF NEW SHARON, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue bonds:									
Sewer	9/28/2001	4.30%	\$ 546,000	\$ 329,000	-	15,000	314,000	14,147	1,125

See accompanying independent auditor's report.

CITY OF NEW SHARON, IOWA
BOND MATURITIES
Year ended June 30, 2006

Year Ending June 30,	Revenue Bonds		
	Sewer		
	Issued 9-28-2001		
	Interest Rates	Principal	Interest
2007	4.30%	\$ 15,000	\$ 13,502
2008	4.30%	16,000	12,857
2009	4.30%	17,000	12,169
2010	4.30%	17,000	11,438
2011	4.30%	18,000	10,707
2012	4.30%	19,000	9,933
2013	4.30%	20,000	9,116
2014	4.30%	21,000	8,256
2015	4.30%	22,000	7,353
2016	4.30%	22,000	6,407
2017	4.30%	23,000	5,461
2018	4.30%	24,000	4,472
2019	4.30%	25,000	3,440
2020	4.30%	27,000	2,365
2021	4.30%	28,000	1,204
		<u>\$ 314,000</u>	<u>\$ 118,680</u>

See accompanying independent auditor's report.

CITY OF NEW SHARON, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FIVE YEARS

	2006	2005	2004	2003	2002
Receipts:					
Property tax	\$ 143,156	137,791	143,344	160,153	134,726
Other taxes	92,046	102,232	93,380	79,860	88,030
Use of money and property	36,190	28,171	20,246	44,978	32,229
Intergovernmental	108,927	149,548	155,409	150,689	149,345
Charges for service	41,404	2,862	2,052	3,095	4,915
Miscellaneous	48,074	71,902	19,486	50,917	25,536
Total	<u>\$ 469,797</u>	<u>492,506</u>	<u>433,917</u>	<u>489,692</u>	<u>434,781</u>
Disbursements:					
Operating:					
Public safety	\$ 122,970	75,490	94,242	205,850	147,973
Public works	225,469	143,854	138,373	256,865	118,600
Culture and recreation	59,705	26,415	40,159	28,205	38,309
Community & Economic Dev.	107,681	32,492	111,748	9,500	9,500
General government	79,564	79,223	74,242	104,364	74,322
Debt service	-	-	-	20,955	89,200
Total	<u>\$ 595,389</u>	<u>357,474</u>	<u>458,764</u>	<u>625,739</u>	<u>477,904</u>

See accompanying independent auditor's report.

City of New Sharon, Iowa



Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of New Sharon
New Sharon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of New Sharon as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 29, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of New Sharon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of New Sharon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New Sharon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of New Sharon and other parties to whom the City of New Sharon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of New Sharon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

December 29, 2006

CITY OF NEW SHARON, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF NEW SHARON, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the budget in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- III-B-06 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-06 Travel Expense - No disbursements of City of New Sharon money for travel expenses of spouses of City officials or employees were noted.

- III-D-06 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2006 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gary Strobel, Street Supt. Strobel Tiling	Backhoe Work	\$1,305

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the City employee does not appear to represent a conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year.

- III-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

- III-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- III-G-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- III-H-06 Revenue Bonds and Notes - The City of New Sharon has established proper accounts as required by the City revenue note resolution.